MANAGEMENT DISCUSSION AND ANALYSIS

This report contains forward-looking statements, which reflect management's current views and estimates. The forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements. Potential risks and uncertainties include such factors as general economic conditions, foreign exchange fluctuations, competitive product and pricing pressures and regulatory developments**.**

1. Key performance highlights

- Overall sales growth of 14.9% buoyed by 54.4% growth in exports
- Gross Profit margin improved by 3.2% driven by improvement of product/market mix, lower material prices and leveraging of factory overheads

Table 1 Profitable Growth

Years	Sales (RO'000)	Sales Growth	Gross Profit (RO'000)	Gross Margin	Profit/(Loss) before Tax RO'000
1998	8,768	**2.2%**	2,303	**26.3%**	213
1999	7,461	**(14.9%)**	1,920	**25.7%**	(290)
2000	7,683	**3.0%**	2,137	**27.8%**	(112)
2001	9,160	**19.2%**	3,002	**32.8%**	324
2002	10,521	**14.9%**	3,790	**36.0%**	404

2. Industry structure and development

We continued to focus on our core business in dairy products and fruit beverages and on the GCC markets, which accounts for 90% of our sales revenue.

Even though the individual GCC markets continued to grow, the high number of players within the industry makes the competition intense. There were a number of new product introductions and innovations at the higher value end of the market. The excess capacities within the industry also led to intense price reductions at the lower volume end of the market. These factors indicate slow but steady maturing of the GCC dairy and beverage markets.

We expect the industry to consolidate over the next few years. The GCC Customs Union will speed up the consolidation process. The initial signs are evident from the number of alignments, mergers and restructuring taking place in the key GCC markets like KSA and UAE.

We believe that consolidation and/or collaboration within the dairy and beverages industry is the key to future growth and overall profitability of the industry. We announced our intent through the strategic alliances with M/S Dhofar Cattle Feed Company and M/S National Mineral Water Company in the Sultanate of Oman.

3. Key Opportunity and threats

a) Competitive pressures

With GCC customs union from 1st January 2003, we expect the competition in both local and GCC markets to intensify further. We are gearing up to meet the challenges in terms of our product offering, distribution and costs/pricing. The rapid growth of our sales during the last two years in the highly competitive local and GCC markets reassures us that our value driving initiatives are yielding results.

b) Uncertain Raw Material Prices

The international prices for our key raw materials like Milk Powders saw wild fluctuations in the recent years. To minimize the adverse impact of these fluctuations, we have diversified our sources for all key raw materials. We have also strengthened the management information and purchasing systems to react more effectively to these changes.

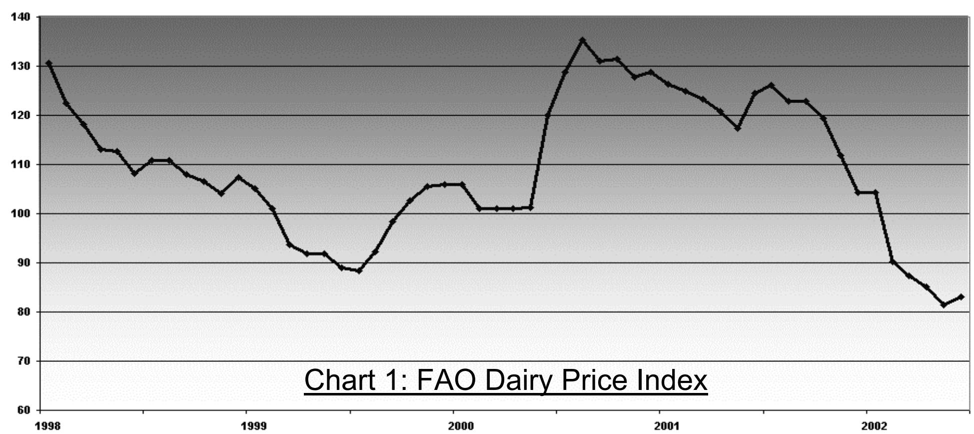


Chart 1: FAO Dairy Price Index

c) Export Markets

Operating in a relatively smaller market within GCC, export growth is vital for building a competitive scale of operations. Given the strategic location and strategic cost advantages of our country in international trade, we believe that select regions can be a profitable addition to our core volumes from GCC.

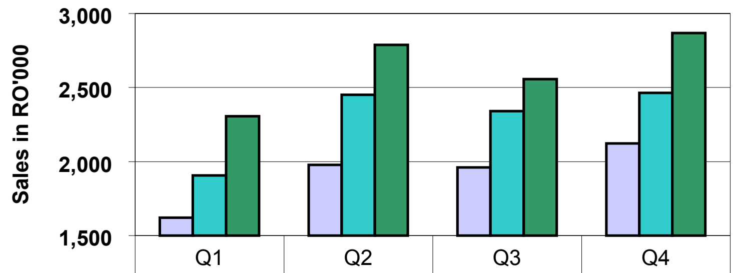
We are consolidating a portfolio of markets with longer-term potential. We are also capitalizing on one-off and regular opportunities like UN tender businesses within the Middle East and North Africa. We were awarded an order for Euro 2.2 Million under the UN Iraqi Oil for Food Program, which is slated for execution in Q1/Q2 of 2003.

3. Discussion on financial and operational performance

a) Source of Sales Growth and seasonality

In line with our growth strategy, the sales have been growing consistently over the last two years. With the portion packs driving our growth in the GCC markets, the sales seasonality is becoming more pronounced with distinct peaks during the school seasons in Q2 and Q4 of every year.

Chart 2: Total Sales by Quarter



	Q1	Q2	Q3	Q4
2000	1,621	1,977	1,961	2,123
2001	1,907	2,450	2,340	2,463
2002	2,307	2,788	2,557	2,869

While the export growth rates have been healthy, the local sale was sluggish during the year due to the significant changes taking place within the distributive trade. However, we took this opportunity to improve the product mix and tighten the credit terms.

Table 2 Sales Growth by Geographical Segment (in RO'000)

Segment	2002	% Growth	2001	% Growth	2000
Oman	6,560	0.8%	6,506	11.2%	5,853
Other GCC	2,793	44.5%	1,934	69.3%	1,142
GCC TOTAL	**9,353**	**10.8%**	**8,439**	**20.6%**	**6,995**
Other Exports	1,168	62.2%	720	4.8%	687
COMPANY TOTAL	**10,521**	**14.9%**	**9,160**	**19.2%**	**7,683**

We hope to bring back the double-digit growth in the local sales through a series of product and distribution initiatives.

b) Profitable Growth

Improving the Gross Profit Margin is one of key business levers to ensure the sales growth is profitable too. Our improvement in the margins are in line with our internal targets and is a result of our focus on higher margin manufactured products and at the expense of lower margin contract manufactured and traded products.

MANAGEMENT DISCUSSION AND ANALYSIS
Year ended 31 December 2002

Chart 3 Focus on manufactured products

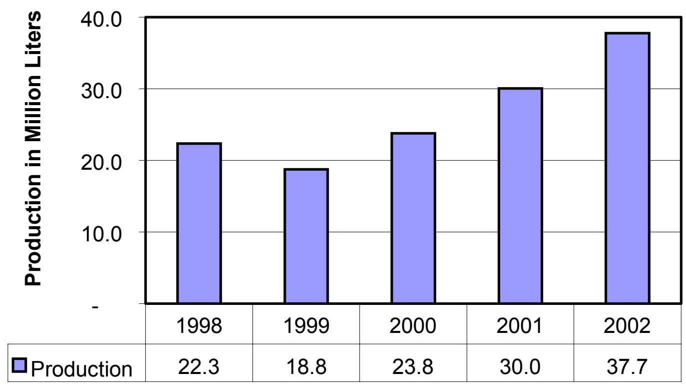


Table 3 Cost of Sales (in RO'000)

Expense Head	2002	% Inc. / (Dec)	2001	% Inc. / (Dec)	2000
NET SALES	10,591	14.9%	9,160	19.2%	7,683
Material Costs	5,172	9.7%	4,715	8.6%	4,343
Factory Overheads	1,142	6.2%	1,075	14.0%	943
Depreciation	418	13.8%	367	41.1%	260
COST OF SALES	6,732	9.3%	6,157	11.0%	5,546

In addition, the following factors contributed to the improvement in the overall gross margin:

- Capitalization of favorable Milk Powder prices during the second half of the year
- Leveraging of the factory overheads and depreciation

c) Distribution Costs

In a geographically large country like ours, our ubiquitous distribution infrastructure has been our competitive advantage. This also acted as a barrier to entry, in the interiors in particular, for any new player from other GCC countries.

Our strategic alignments with National Mineral Water Company offers both the companies to restructure our distribution infrastructure without sacrificing our distribution reach. We hope to significantly bring down the local distribution costs as % of sales through this strategic initiative.

Following the GCC Customs Unification, we also increased our Advertising & Promotions budget to 'drive volumes' and market shares.

We are also exploring alliances and partnerships for the sharing of high cost distribution networks within the GCC.

Table 4 Distribution Costs (in RO'000)

Expense Head	2002	% Sales	2001	% Sales
NET SALES	**10,521**		**9,160**	
Employee Costs	713	6.8%	729	8.0%
Transport Costs	263	2.5%	191	2.1%
A & P	613	5.8%	318	3.5%
Export Freight	329	3.1%	166	1.8%
Others	1,021	9.7%	781	8.5%
TOTAL	**2,677**	**25.4%**	**1,995**	**21.8%**

d) Cash Flow and Interest Expenses

The growth strategy meant investments in capital projects and in working capital. The net working capital change and the cash used in the investment activities during the last three years were:

(in RO'000)	2002	2001	2000
Operating Profit before WC changes	1,339	1,180	591
Net Working Capital change	(38)	(1,683)	(846)
Cash (used) in investing activities	(1,202)	(1,249)	(710)

While we had to resort to bank borrowings to finance the investments during the last two years, the investment during the year 2002 was predominantly managed with the internal accruals. The need to reduce borrowings and the interest burden will continue to be a focus area for the management.

In January 2003, the Ministry of Commerce & Industry approved a soft loan of RO 1.0 Million to fund the company's expansion plans. This will ease the dependence on the bank borrowings and reduce the interest expenses proportionately.

e) Taxation

(Refer to Note No. 4 of the audited financial statements)

The Net Profit Before Tax for the year is RO 404,498. After adjustments of net deductible timing differences and on applying a tax rate of 12%, the resulting tax liability for the year is RO 6,306. The deferred tax charge relating to the origination and reversal of temporary differences is RO 63,348. This after adjusting the deferred tax asset of RO 48,459 brought forward from the year 2001 leaves a deferred tax liability of RO 14,889 to be adjusted against the future tax liability.

f) Working Capital

	2002	Days	2001	Days	2000	Days
NET SALES	**10,521**		**9,160**		**7,683**	
Cost of Sales	**6,732**		**6,157**		**5,546**	
Trade Debtors	2,495	**87**	2,494	**99**	2,144	**102**
Stocks (exc. Transit)	2,566	**139**	1,753	**104**	1,151	**76**

Working in a credit driven GCC market, where the credit terms are an average of 120 days, it is a challenge to contain and reduce the Days Sales Outstanding (DSO). With our local sales product mix shifting marginally towards cash sales and concerted industry efforts, we hope to bring down the local DSO in the coming years. The export bills are insured with the ECGA and are discounted earning an interest subsidy of 1%.

As discussed in para 3b, with the high seasonality of our key raw materials and fluctuating prices of our key raw materials we have evolved a system of hedging our yearly requirements through stocking up or forward covers.

The spurt in the physical and in-transit stocks as at end December 2002 is due to additional milk powder covered at low prices (refer chart 1) and stock cover for the Iraqi Tender business. We hope to bring down the stocks to our operating target levels after execution of this big order. Since these carry a supplier credit of 60 to 90 days, this also explains the spurt in the trade creditors too.

4. Risks and concerns

The company is still in a restructuring phase of the business in a highly dynamic and competitive industry. The key management focus will be on managing the associated business risks without loosing the growth momentum established during the last two years.

Some of the key business risks and our concerns are:

- With the intensity of the industry the pressure on realizations and margins are here to stay. The key management challenge will at least be to protect the margins, if improvements are not feasible, through product innovations, investment in A&P and cost focus.
- The high level of credit in the local market has been the bane of the industry. Greater focus on the credit practices and credit risks will continue to be a key concern area
- A growth-based strategy will involve investment in capacity creation and product innovations. We will continue to evaluate options before the company to fund the growth through internal generation supplemented by external borrowings.
- Operating between a highly fluctuating international market for the key raw materials and a credit driven GCC market, management of working capital and cash focus will continue to be key focus area.
- The need to reduce bank borrowing and management of risk associated with high gearing are being addressed.

5. Internal Control Systems and their adequacy

We believe that development of our employees and effective systems are critical for the success of any business in today's competitive business environment. Apart from our investments in selection and training of our employees, we have also invested in business systems and processes focused on the key business areas.

We implemented an Enterprise Resource Planning system in end 2001 and the current year was the full year of operation of the system. We believe that this has significantly improved our management information and internal control systems. We plan to extend this system to the retail level through hand held computers for our salesmen. Apart from improving the retail level sales and credit control this will also help us improve our information and level of service to our customer base of over 5,200.

We believe that for a company to succeed on a sustainable basis, it must maintain high standards of corporate governance towards all its stakeholders. The Audit Committee was formed well before it became mandatory. As an ISO company the policies, systems and procedures are well documented and communicated to all employees. The quarterly Internal audit process evaluates their adequacy and satisfactory operation. The audit findings are independently reported to the Audit Committee and the Board of Directors.

As stated by our board of directors in their report, we as a company have always focused on good corporate governance, which is a key driver of sustainable and profitable growth and long-term value creation for our shareholders. This is a continuous process.

5. Outlook for 2003

We will continue with our growth objective of double digit growth targets for local and export markets and progressive growth of net profit.

The variables that can profoundly influence the success and failure of our business are too numerous to list, making it impossible to predict the future outcome with any confidence. Our "portfolio of initiatives" aimed at ensuring achievement of our growth objectives include:

- exploitation of export opportunities (refer para 3c), while trying to rekindle local growth
- reduction of our sales & distribution expenses and expansion of our chilled product portfolio respectively our through strategic alliances with National Mineral Water Company and Dhofar Cattle Feed Company
- forward cover for key raw materials to buffer any adverse impact from fluctuations in international material prices
- soft loan of RO 1.0 Million to ease the pressure on cash and reduce the interest burden
- realization of other receivables of over RO 1.0 Million (refer note no. 6 to the financial statements) to release the working capital locked up.

We are very proud of the winning culture we nurture and strive to develop within the organization. We are sure that the empowered team will deliver sustainable and profitable growth and long-term value creation for our shareholders.

N. Ramachandran
General Manager

25th February 2003